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## REPORT TO THE LEGISLATURE

# BOARD OF PUBLIC EDUCATION

Financial-Compliance Audit Report  
For Fiscal Years 1984-85 and 1985-86

This report contains an unqualified opinion on the board's financial schedules and does not contain any recommendations.

# PLEASE RETURN



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Direct comments/inquiries to:  
Office of the Legislative Auditor  
Room 135, State Capitol  
Helena, Montana 59620

## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial schedules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

### MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Judy Jacobson, Chairman	Representative John Cobb,
Senator Delwyn Gage	Vice Chairman
Senator Tom Keating	Representative Dorothy Bradley
Senator Ted Neuman	Representative Harry Fritz
	Representative Bruce Simon

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STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET  
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI  
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT  
LEGISLATIVE AUDITOR

February 1987

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education for each of the two fiscal years ending June 30, 1986. This report contains an unqualified opinion on the board's financial schedules and does not contain any recommendations.

We thank the chairman of the board and the board's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat  
Legislative Auditor



Office of the Legislative Auditor

BOARD OF PUBLIC EDUCATION

Financial-Compliance Audit  
For Fiscal Years 1984-85 and 1985-86

Members of the audit staff involved in this audit include: Wayne Guazzo, Wayne Kedish, Gary Trescott, Amy Vanica, Don Davies, and Lisa Warburton.

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## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

### BOARD OF PUBLIC EDUCATION

Honorable Ted Swinden	Governor <sup>*</sup>
Ed Argenbright	Superintendent of Public Instruction <sup>*</sup>
Carrol Krause	Commissioner of Higher Education <sup>*</sup>

	<u>Term Expires</u>
Ted Hazelbaker, Chairman	Dillon 1990
William Thomas	Great Falls 1993
James A. Graham	Ismay 1988
Arthur Schauer	Libby 1989
Thomas A. Thompson	Browning 1987
Sarah Listerud	Wolf Point 1991
Alan Nicholson	Helena 1992
Amy Regan	Butte Student Rep.

<sup>\*</sup> ex officio members

### ADMINISTRATIVE OFFICIALS

Claudette Morton	Executive Secretary to the Board
Hidde Van Duym	Executive Secretary to the Board (Terminated Employment August 21, 1986)

## INTRODUCTION

We performed a financial-compliance audit of the Board of Public Education (BPE) for the two fiscal years ended June 30, 1986. The audit objectives were to:

1. determine if the board's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1986;
2. make recommendations for improvement in management and internal control of the board's operations; and
3. determine if the board complied with applicable state laws and regulations.

Based on the results of our audit we issued an unqualified opinion on the school's financial schedules (see the opinion on page 3). For the legal compliance items tested, we found the board complied with applicable state laws and regulations. Nothing came to our attention to indicate that the board had not complied with untested laws and regulations.

## BACKGROUND

The Montana Board of Public Education was created by Article X, Section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the Governor and confirmed by the Senate. Members are appointed for seven-year overlapping terms. A student, selected annually by the Montana Association of Student Councils, also sits as a nonvoting member of the board. The board operates an office in Helena utilizing two full-time employees, an executive secretary to the board, and an administrative assistant.

The Board of Public Education exercises general supervision over the public school system and such other public educational institutions as may be assigned by law. The Board of Public Education is also assigned statutory responsibilities, including the establishment of policies for school accreditation, teacher



certification, state equalization and distribution, special education, school bus standards and regulations, and the designation of school days and hours.

The board is assigned by statute the general supervision of the Montana School for the Deaf and Blind and the Montana Fire Services Training School (FSTS). The School for the Deaf and Blind and the Montana Fire Services Training School are being audited separately and the reports will be issued under separate covers.

#### PRIOR AUDIT RECOMMENDATIONS

The prior audit of the Board of Public Education was conducted for the two fiscal years ended June 30, 1984. We reviewed the status of the one prior audit recommendation and determined it was implemented by the board.



AUDITOR'S OPINION LETTER  
AND AGENCY FINANCIAL SCHEDULES

## SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments for errors noted during the audit. This is done to convey the degree of reliance users may place on this SBAS information.

The unqualified opinion on the schedules presented means that the schedules are fairly stated in all material respects and that the user can rely on the information presented.

Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET  
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI  
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT  
LEGISLATIVE AUDITOR

The Legislative Audit Committee  
of the Montana State Legislature:

We have examined the various financial schedules of the Board of Public Education for each of the two fiscal years ended June 30, 1985, and 1986, as shown on pages 4 through 8. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 on page 6, the board's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly the results of operations and changes in fund balance of the Board of Public Education for the fiscal years ending June 30, 1985, and 1986, in conformity with the basis of accounting described in Note 1 on page 6, which has been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

November 6, 1986

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF CHANGES IN FUND BALANCE  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>General Fund</u>
FUND BALANCE, July 1, 1984	\$ <u>-0-</u>
ADDITIONS:	
<u>Fiscal Year 1984-85</u>	
Support From State Of Montana	\$102,632
<u>Fiscal Year 1985-86</u>	
Support From State Of Montana	<u>105,878</u>
Total Additions	<u>208,510</u>
REDUCTIONS:	
<u>Fiscal Year 1984-85</u>	
Budgeted Expenditures	101,683
Prior Year Expenditure Adjustments	949
<u>Fiscal Year 1985-86</u>	
Budgeted Expenditures	105,670
Prior Year Expenditure Adjustments	<u>208</u>
Total Reductions	<u>208,510</u>
FUND BALANCE, June 30, 1986	\$ <u>-0-</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 6 through 8.

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>1986</u>	<u>1985</u>
PERSONAL SERVICES		
Salaries	\$ 41,368	\$ 38,891
Hourly Wages	10,564	11,968
Other Compensation	3,338	4,004
Employee Benefits	<u>10,051</u>	<u>9,886</u>
Total	<u>65,321</u>	<u>64,749</u>
OPERATING EXPENSES		
Contracted Services	11,586	9,175
Supplies & Materials	2,583	3,932
Communications	5,993	5,899
Travel	11,541	12,586
Rent	621	370
Repair & Maintenance	876	110
Other Expenses	<u>4,729</u>	<u>4,862</u>
Total	<u>37,929</u>	<u>36,934</u>
EQUIPMENT AND INTANGIBLE ASSETS		
Equipment	<u>2,420</u>	
Total	<u>2,420</u>	
 TOTAL PROGRAM EXPENDITURES	 <u>\$105,670</u>	 <u>\$101,683</u>
GENERAL FUND		
Budgeted	\$113,893	\$101,990
Actual	<u>105,670</u>	<u>101,683</u>
Unspent Budget Authority	<u>\$ 8,223</u>	<u>\$ 307</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 6 through 8.

BOARD OF PUBLIC EDUCATION

NOTES TO FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The state of Montana uses the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of an existing service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted if a valid purchase order has been issued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund is used by the board:

General - accounts for all financial resources except those required to be accounted for in another fund. Legislative appropriations are required to spend from this fund.



## 2. ANNUAL AND SICK LEAVE

Employees at the board accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the presented financial schedules of the Board of Public Education. Expenditures for termination pay currently are absorbed in the annual operational costs of the board. At June 30, 1986 the board had a liability of \$3,754 for vacation leave and \$2,637 for sick leave.

## 3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). An actuary determined PERS was funded on an actuarially sound basis as of July 1, 1986. The board's contributions to this plan are shown below:

	<u>Fiscal Year</u> <u>1984-85</u>	<u>Fiscal Year</u> <u>1985-86</u>
PERS	\$3,085	\$3,098

## 4. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

## 5. LITIGATION

The Board of Public Education is named as a defendant in: Helena Elementary School District #1, et. al. v. State of Montana, et. al. in district court. This case is commonly known as the

school foundation lawsuit. The outcome of this lawsuit could significantly alter the funding and/or the definition of basic education as it relates to Montana's public education system.

The board is also named as a defendant in: Peretti et. al. v. State of Montana, Missoula County. The plaintiffs in the case are sixteen former students in the Aviation Technology program at the Missoula Vocational-technical Center who claim damages resulting from cancellation of the second year of the program in June 1977. Each plaintiff has requested judgement in the amount of \$120,000. The district court judge has determined that the state is liable for breach of an implied contract with the students, but actual damages have not yet been determined. The state is presently seeking appellate review of the liability issue.



